

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 NEA-11 IO-13 ISO-00 AID-05 CIAE-00

COME-00 EB-08 FRB-03 INR-10 NSAE-00 ICA-11

TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-07 CEA-01 AGRE-00 INT-05 DOE-15

SOE-02 /147 W

-----111866 251128Z /11

P 250950Z MAY 78

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC PRIORITY 9974

INFO AMEMBASSY BONN

AMEMBASSY BRAZZAVILLE OPOUCH

AMEMBASSY BRUSSELS

AMCONSUL BUKAVU POUCH

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMCONSUL LUBUMBASHI

AMEMBASSY LUSAKA

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

US MISSION USUN NEW YORK 1576

C O N F I D E N T I A L SECTION 1 OF 3 KINSHASA 5328

DEPT PASS COMMERCE, EXIM, TREASURY

BRUSSELS ALSO FOR USEEC

E.O. 11652: GDS

TAGS: EGEN, EFIN, CG

SUBJECT: ZAIRE'S ECONOMIC OUTLOOK AFTER KOLWEZI

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REF: A) KINSHASA 3204 (NOTAL), B) LUBUMBASHI 0546 (NOTAL)

1. SUMMARY: THE MAY 13-20 EVENTS IN KOLWEZI HAVE STRUCK A SEVERE BLOW TO ZAIRE'S ECONOMIC PROSPECTS FOR 1978. GECAMINES' MINING OPERATIONS IN KOLWEZI WILL PROBABLY BE NIL FOR THE BALANCE OF THE YEAR, AND PRODUCTION IN GECAMINES' REMAINING

SHABA FACILITIES MAY ALSO BE AFFECTED ADVERSELY. THE LACK OF FINANCIAL RESOURCES TO REPAIR DAMAGED FACILITIES AND THE DEPARTURE OF EXPATRIATE TECHNICAL PERSONNEL FROM KOLWEZI MAKE A TURN-AROUND UNLIKELY IN THE FORESEEABLE FUTURE WITHOUT A MAJOR INFUSION OF OUTSIDE CAPITAL. WITH THE SHARP REDUCTION IN COPPER, COBALT, AND ZINC REVENUES, THE TOTAL VALUE OF MINERAL RECEIPTS SHOULD DECLINE BY APPROXIMATELY 25 PER CENT IN 1978. THIS, IN ADDITION TO EXISTING PROBLEMS WITH COFFEE EXPORTS, WILL SIGNIFICANTLY REDUCE ZAIRE'S PURCHASING POWER ABROAD. ASSUMING AS A BASIS FOR ANALYSIS THAT ZAIRE'S IMPORT VOLUME REMAINS UNCHANGED FROM 1977, THE EMBASSY ESTIMATES ZAIRE'S BALANCE OF PAYMENTS DEFICIT WILL REACH APPROXIMATELY \$665 MILLION, INCLUDING EXISTING DEBT SERVICE OBLIGATIONS FOR 1978. HOWEVER, THE EMBASSY FEELS UNDER THE PRESENT CIRCUMSTANCES THAT A PARIS CLUB RESCHEDULING OF ZAIRE'S 1978 OFFICIAL DEBT ALONG THE LINES OF THE 1977 RESCHEDULING IS NOW UNAVOIDABLE. MOREOVER, EITHER OFFICIAL OR DE FACTO RESCHEDULING OF ZAIRE'S PRIVATE DEBT ALSO APPEARS LIKELY. EVEN WITH PUBLIC AND PRIVATE DEBT RESCHEDULING AND THE USE OF \$83 MILLION IN ITS BLOCKED BIS ACCOUNT, ZAIRE WOULD STILL LACK ROUGHLY \$140 MILLION IN FINANCING. GIVEN THE SLOW PACE OF PAST IMF STANDBY NEGOTIATIONS, IT APPEARS UNLIKELY THAT ZAIRE CAN COUNT ON MULTILATERAL ASSISTANCE BEFORE THE END OF THE YEAR. BILATERAL ASSISTANCE COULD FILL PART OF THIS NET FINANCIAL GAP, BUT IT IS ALSO LIKELY THAT THE GAP WILL BE CLOSED BY A FURTHER REDUCTION IN IMPORTS AS THE SHOCK WAVES FROM THE MINERAL SECTOR HAVE THEIR EFFECT ON

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THE MANUFACTURING, CONSTRUCTION, AND SERVICES SECTOR. GIVEN THE ALREADY DEPRESSED IMPORT LEVELS, A FURTHER SQUEEZE ON IMPORTS WOULD EXACERABET THE DECLINE IN GROSS DOMESTIC PRODUCT (GDP) (ALREADY ESTIMATED BY THE GOZ AT -1.0 PERCENT IN 1978) AND, ASSUMING 2.8 PER CENT POPULATION GROWTH, PRODUCE AN EVEN SHARPER DROP IN PER CAPITA INCOME. ADDITIONAL RECOMMENDATIONS FOR ANY USG TO ZAIRE'S LATEST ECONOMIC CRISIS WILL FOLLOW SEPTTEL. END SUMMARY

2. ZAIRE'S ECONOMY HAS BEEN IN A DECLINE SINCE THE LAST QUARTER OF 1974. GDP DECLINED IN 1975 (-6.8 PER CENT), 1976 (-4.7 PER CENT), AND 1977 (-2.3 PER CENT) AND PRELIMINARY GOZ FORECASTS PREDICTED A 1.0 PER CENT DECLINE IN 1978 AS WELL. ONE OF THE PRINCIPAL REASONS FOR THIS DECLINE HAS BEEN FOREIGN EXCHANGE-INDUCED RESTRICTIONS ON IMPORTS OF RAW MATERIALS AND SPARE PARTS. PRODUCTION IN THE MING SECTOR WAS PARTICULARLY HARD HIT IN 1976 (-11 PER CENT), AND THIS IN TURN ADVERSELY AFFECTED THE MANUFACTURING, PUBLIC WORKS/CONSTRUCTION, AND SERVICES SECTORS. IRONICALLY, MINERAL PRODUCTION INCREASED IN 1977 (4.4 PERCENT), AND THE GOZ WAS COUNTING HEAVILY ON INCREASED REVENUES FROM THE GECAMINES P-2 EXPANSION PROJECT AT KOLWEZI, SCHEDULED FOR COMPLETION IN 1979, TO HELP FINANCE ZAIRE'S

EXTERNAL DEBT AND NEW CAPITAL EXPENDITURES.

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P 250950Z MAY 78

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TO SECSTATE WASHDC PRIORITY 9975

INFO AMEMBASSY BONN

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C O N F I D E N T I A L SECTION 2 OF 3 KINSHASA 5328

DEPT PASS COMMERCE, EXIM, TREASURY

BRUSSELS ALSO FOR USEEC

3. THE OCCUPATION OF KOLWEZI HAS PROBABLY CLOSED GACMINES'
KOLWEZI OPERATIONS FOR THE BALANCE OF 1978. PRELIMINARY REPORTS
INDICATE THAT GECAMINES' PHYSICAL PLANT AT KOLWEZI DID NOT
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SUFFER MAJOR DAMAGE. HOWEVER, ALL EXPATRIATE PERSONNEL HAVE DEPARTED KOLWEZI AND MOST HAVE LEFT ZAIRE. ALTHOUGH IT IS PERHAPS TECHNICALLY FEASIBLE TO RESUME PRODUCTION WITHIN SEVERAL MONTHS, WE CONSIDER IT LIKELY THAT KOLWEZI'S PRODUCTION WILL BE LOST FOR THE REMAINDER OF THIS YEAR. THE LIKASI AND LUBUMBASHI FACILITIES, WHICH ACCOUNT FOR 25 PER CENT OF GECAMINES' PRODUCTION, ARE PRESENTLY OPERATING AS NORMAL AND, FOUR OUR BALANCE OF PAYMENTS PROJECTIONS, WE ASSUME THAT THEY WILL CONTINUE TO DO SO. CONSEQUENTLY, ESTIMATES OF ZAIRE'S COPPER, COBALT AND ZINC PRODUCTION FOR 1978, AND HENCE ITS FOREIGN EXCHANGE EARNINGS, MUST BE REVISED SHARPLY DOWNWARD. IN THIS LIGHT, THE EMBASSY HAS REVISED SUBSTANTIALLY ITS BALANCE OF PAYMENTS PROJECTIONS (FINANCIAL SETTLEMENTS BASIS) FOR 1978 (REF A) AS FOLLOWS (IN MILLIONS OF US DOLLARS):

RECEIPTS (GOODS AND SERVICES)	1035
OF WHICH	
(MINERAL EXPORTS)	(585)
(AGRICULTURAL EXPORTS)	(300)
EXPENDITURES	1700
OF WHICH	
(IMPORTS OF GOODS AND SERVICES)	(1200)
(DEBT SERVICE)	(490)
(NET TRANSFERS)	(10)
GROSS FINANCIAL GAP	665

4. RECEIPTS: ACCORDING TO THE BANK OF ZAIRE, ZAIRE EXPORTED IN 1977 GOODS AND SERVICES VALUED AT Z1,054 MILLION/\$1,212 MILLION (ONE ZAIRE EQUALS \$1.15). MINERAL EXPORTS ACCOUNTED FOR Z628 MILLION/\$722 MILLION. FOR 1978, THE GOZ HAD PROJECTED EXPORTS OF GOODS AND SERVICES AT Z1,337 MILLION/\$1670 MILLION (ONE ZAIRE EQUALS \$1.25) INCLUDING MINERAL EXPORTS OF Z903 MILLION/\$1.130 MILLION. THESE FIGURES WERE BASED, HOWEVER, ON AN OPTIMISTIC EVALUATION OF GECAMINES PRODUCTION

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(518,000 MT) AND THE TREND IN COPPER PRICES. THE EMBASSY'S ESTIMATE FOR TOTAL EXPORT RECEIPTS FOLLOWING THE LATEST SHABA CONFLICT--\$1,035 MILLION, INCLUDING \$150 IN EXPORTS OF SERVICES, \$300 MILLION IN AGRICULTURAL EXPORTS, AND \$585 MILLION IN MINERAL EXPORTS--IS BASED ON THE FOLLOWING ASSUMPTIONS:
 --ASSUMING GECAMINES' KOLWEZI PRODUCTION IS SHUT DOWN FOR THE BALANCE OF 1978, GECAMINES' 1978 COPPER EXPORTS ARE ESTIMATED AT 200,000 MT, INCLUDING FOUR MONTHS PRODUCTION AT NEAR NORMAL LEVELS AND CONTINUED PRODUCTION FROM GECAMINES FACILITIES IN THE LIKASI AND LUBUMBASHI AREA. SODIMIZA'S COPPER PRODUCTION IS ASSUMED UNAFFECTED BY THE CONFLICT (30,000 MT). THE AVERAGE PRICE OBTAINED FOR COPPER SO FAR THIS YEAR HAS BEEN 57 CENTS PER POUND.

--COBALT AND ZINC EXPORTS ARE BASED ON LATEST LUBUMBASHI ESTIMATES (REF B) OF ALREADY COMPLETED PRODUCTION AND PROBABLE ADDITIONAL OUTPUT.

--RECENT COMPANY REPORTS ESTIMATE THE VALUE OF INDUSTRIAL AND GEM DIAMOND EXPORTS TO REACH \$95 MILLION, A SHARP INCREASE OVER 1977.

--COFFEE EXPORTS HAVE BEEN REVISED DOWNWARD BECAUSE OF RECENT REPORTS OF EXTENSIVE SMUGGLING. WHILE ZAIRE'S FY-77/78 COFFEE PRODUCTION WAS 80,000 MT AS IN FY-76/77, OFFICIAL EXPORTS ARE ESTIMATED AT ONLY 50,000 MT. OF THE REMAINING 30,000 MT ESTIMATED TO HAVE BEEN SMUGGLED OUT OF ZAIRE, THE EMBASSY FEELS THAT THE PROCEEDS FROM 15,000 MT WILL NOT BE REPATRIATED WHILE THE BALANCE WILL RETURN IN THE FORM OF PRIVATE IMPORTS. THE COFFEE PRICE IS BASED ON AN ESTIMATE OF THE AVERAGE PARIS SELLING PRICE FOR ZAIREAN COFFEE. ESTIMATES FOR ZAIRE'S OTHER PRINCIPAL COMMODITY EXPORTS REMAIN AS REPORTED REF A.

MILLIONS OF US

\$

COPPER	230,00 MT AT 58 CENTS/LB	293.5
COBALT	5,150 MT AT \$8.00 LB	91.6
TIN/CASSITERITE	3,000 MT AT \$500/LB	33.0
ZINC	25,000 MT AT 23 CENTS/LB	12.7
DIAMONDS (GEM)		25.0

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DIAMONDS (INDUSTRIAL)		70.0
PETROLEUM	PER CONCESSION AGREEMENT	31.0
GOLD	48,226 OZ. AT \$175/OZ	8.4
OTHER MINERALS		20.0
TOTAL MINERAL		585.2
COFFEE	65,000 MT AT \$1.50/LB	214.5
PALM OILS	30,000 MT AT 24 CENTS/LB.	15.9
TIMBER	90,000 CU. M. AT \$265/CU.M.	23.9
COCOA	3,500 MT AT \$1.30/LB	10.0
TEA	4,000 MT AT 78 CENTS/LB	6.9
RUBBER	28,000 MT AT 40 CENTS/LB	24.7
OTHER AGRICULTURAL		5.0
TOTAL AGRICULTURE		300.9

IT SHOULD ALSO BE POINTED OUT THAT MUCH OF ZAIRE'S COPPER REVENUES HAVE ALREADY BEEN REALIZED SINCE SGB, THE BELGIAN HOLDING COMPANY WHOSE SUBSIDIARY SGM, HAS PRIMARY RESPONSIBILITY FOR MARKETING THE GECAMINES PRODUCTION, ADVANCES ZAIRE 80 PER CENT OF THE AVERAGE LME PRICE OVER THE PREVIOUS THREE MONTHS UPON THE EMBARCATION OF GECAMINES' PRODUCTION FROM A PORT. SGM PAYS THE REMAINING 20 PERCENT WHEN THE COPPER IS ACTUALLY SOLD.

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P 250950Z MAY 78

FM AMEMBASSY KINSHASA

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C O N F I D E N T I A L SECTION 3 OF 3 KINSHASA 5328

DEPT PASS COMMERCE, EXIM, TREASURY

BRUSSELS ALSO FOR USEEC

5. EXPENDITURES: PREVIOUS EMBASSY ESTIMATES OF IMPORTS FOR
BALANCE OF PAYMENTS ANALYSES HAVE POSITED THE LEVEL OF IMPORTS
REQUIRED TO SUSTAIN A FOUR PER CENT ANNUAL GROWTH IN GDP. HOW-
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EVER, -843'S ECONOMIC EXPERIENCE SINCE 1974 HAS BEEN ONE OF
DECLINING GDP, LARGELY AS A RESULT OF THE FALLING VOLUME OF
IMPORTS DUE TO FOREIGN EXCHANGE SHORTAGES. THEREFORE, UNDER

THE CURRENT CIRCUMSTANCES, AND AS A POINT OF DEPARTURE, THE EMBASSY FEELS THAT ZAIRE WOULD BE DOING EXTREMELY WELL IN 1978 TO MAINTAIN THE SAME VOLUME OF IMPORTS AS IN 1977. ACCORDING TO THE MOST RECENT GOZ STATISTICS, IMPORTS OF GOODS AND SERVICES WERE VALUED AT Z1,040 MILLION/\$1200 MILLION (ONE ZAIRE EQUALS \$1.15) IN 1977. ASSUMING A SEVEN PER CENT INCREASE IN IMPORT PRICES FOR 1978, THE NOMINAL VALUE OF ZAIRE'S 1978 IMPORTS WOULD BE \$1285 MILLION. WITH 75 PER CENT OF GECAMINES' PRODUCTION OUT OF SERVICE FOR THE BALANCE OF 1978, IT CAN BE ARGUED THAT ZAIRE'S IMPORT REQUIREMENTS WOULD DECLINE BECAUSE OF THE HIGH IMPORT CONTENT OF COPPER PRODUCTION. (GECAMINES IS ALLOWED TO KEEP UP TO 50 PERCENT OF ITS EXPORTS EARNINGS TO PAY FOR NECESSARY IMPORTS OF SPARE PARTS, EQUIPMENT AND FOOD. OVER THE LAST FEW YEARS, HOWEVER, THIS HAS RUN AROUND 35 PERCENT.) ON THE OTHER HAND, GECAMINES WILL STILL HAVE FOREIGN EXCHANGE REQUIREMENTS EVEN WHILE THE MAJOR PORTION OF ITS FACILITIES ARE CLOSED, I.E. DAMAGE REPAIRS, ROUTINE MAINTENANCE, EXPATRIATE SALARIES AND REIMBURSEMENTS FOR KOLWEZI LOSSES, AND CORN IMPORTS. THE EMBASSY, THEREFORE, ESTIMATES THE NET REDUCTION IN GECAMINES' IMPORTS AT 30 PERCENT OF THE COMPANY'S PROJECTED REVENUES IN 1978, OR APPROXIMATELY \$80 MILLION. WITH THESE ADJUSTMENTS FOR INFLATION AND GECAMINES' REDUCED IMPORT REQUIREMENTS, THE NOMINAL VALUE OF ZAIRE'S TOTAL IMPORTS FOR 1978 WOULD THUS REMAIN ROUGHLY \$1200 MILLION.

6. THE DEBT SERVICE EXPENDITURE IS BASED ON ESTIMATES OF DEBT SERVICE THE PARIS CLUB GOVERNMENTS FOR 1978 PLUS APPROXIMATELY \$11 MILLION DUE UNDER THE REVISED TERMS OF THE 1977 RESCHEDULING AND APPROXIMATELY \$180 MILLION OWED TO THE LONDON AGREEMENT BANKS. ALSO INCLUDED IS THE \$7 MILLION DOWN PAYMENT

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ON THE PROPOSED EXIM LOAN FOR COMPLETION OF THE INGA-SHABA TRANSMISSION LINE. THERE HAS BEEN NO ATTEMPT TO ESTIMATE THE REDUCTION OF ARREARS WHICH WILL PROBABLY BE REQUIRED UNDER ANY NEW STANDBY. FINALLY, NET TRANSFERS ABORAD ARE EXPECTED TO CONTINUE THE DECLINE BEGUN IN 1974 AND ARE ESTIMATED AT ONLY \$10 MILLION.

7. FINANCING: THE BASIC SCENARIO OUTLINED ABOVE ASSUMES AN ATTEMPT ON THE PART OF ZAIRE TO PAY ALL DEBTS CURRENTLY OWING. UNDER THE PRESENT CIRCUMSTANCES THIS IS NOT LIKELY TO BE THE CASE. RESCHEDULING OF THE AMOUNTS DUE PUBLIC CREDITORS ON TERMS EQUIVALENT TO THOSE GIVEN LAST YEAR APPEARS TO BE INEVITABLE IN VIEW OF ZAIRE'S OBVIOUS INABILITY TO MAKE ANY SIGNIFICANT DEBT PAYMENTS. THIS ALONE, BASED ON THE FIGURES PROVIDED AT THE LAST PARIS CLUB MEETING AND EMBASSY CALCULATIONS OF WHAT IS STILL UNPAID UNDER THE 1975-76 AND 1977 RESCHEDULINGS, WOULD DROP THE ZAIRIAN DEBT BURDEN TO APPROXIMATELY \$260 MILLION OF PUBLIC AND PRIVATE DEBT OBLIGATIONS. HOWEVER, IT IS HIGHLY UNLIKELY THAT THE LONDON

BANK AGREEMENT LOAN WILL GO THROUGH AT THIS POINT, AND EITHER NEGOTIATED OR DE FACTO PRIVATE RESCHEDULING BECOMES A MORE REALISTIC ASSUMPTION. IT IS LIKELY THAT AT MOST, A MINIMAL AMOUNT WILL BE PAID ON PRIVATE DEBT FOR THE REMAINDER OF 1978. THIS WOULD BRING THE DEBT SERVICE BURDEN DOWN TO ROUGHLY \$50 MILLION AND THE BALANCE OF PAYMENTS GAP TO \$225 MILLION. IN ADDITION, PRIVATE RESCHEDULING WOULD FREE THE \$83 MILLION CURRENTLY BLOCKED IN THE BIS ACCOUNT UNDER THE TERMS OF THE LONDON BANK AGREEMENT FOR USE FOR IMPORTS AT THE DISCRETION OF THE GOZ. THIS WOULD LEAVE A NET GAP ON THE ORDER OF \$140 MILLION, WHICH WOULD HAVE TO BE FINANCED. IN VIEW OF ZAIRE'S CURRENTLY POOR CREDIT RATING AND SOMEWHAT BLEAK SHORT-TERM ECONOMIC PROSPECTS, THIS FINANCIAL GAP IS NOT LIKELY TO BE FILLED EITHER BY PRIVATE LENDING OR SUPPLIER CREDITS. THE MOST PROBABLE SOURCES OF ANY ADDITIONAL FINANCING WOULD THEN COME FROM FOREIGN ASSISTANCE, EITHER BILATERAL OR MULTILATERAL. THE EMBASSY HAS NOT TRIED TO ESTIMATE THE SIZE OF AN IMF STANDBY, ASSUMING THAT, GIVEN THE PAST RECORD OF DELAYS, CONFIDENTIAL

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ANY FUNDS WOULD BE AVAILABLE TOO LATE TO HAVE ANY REAL IMPACT ON THIS YEAR'S BALANCE OF PAYMENTS. THE BURDEN WILL, THEREFORE, FALL IN PART ON BILATERAL ASSISTANCE TO BRIDGE THIS FINANCING GAP. IT IS MORE LIKELY, HOWEVER, THAT IMPORTS WOULD HAVE TO BE REDUCED SUBSTANTIALLY BELOW ALREADY DEPRESSED LEVELS, THUS AGGRAVATING THE DOWNWARD SPIRAL IN GDP THAT HAS FOLLOWED THE 1974 BOOM. ASSUMING A 2.8 PER CENT GROWTH IN POPULATION, A CONTINUED SHARP DECLINE IN GDP WOULD BE REFLECTED IN AN EVEN SHARPER DECLINE IN PER CAPITA INCOME. THE LIVING STANDARDS OF ZAIRE'S URBAN AND RURAL POOR WOULD SUFFER THE BRUNT OF THIS CONTRACTION. CUTLER

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